Annual Report 1968

Our
first
billion
dollar
year

The Grand Union Company

Directors and Officers
The Grand Union Company

Directors

*THOMAS C. BUTLER	*Chairman of the Board*
EMERSON E. BRIGHTMAN	*Executive Vice President*
HELEN G. CANOYER	*Dean, School of Home Economics, University of Massachusetts*
*S. WILLIAM GREEN	*Attorney New York City*
IRVING KAHN	*Partner, Abraham & Co., Securities New York City*
*LAWRENCE C. MARSHALL	*Chairman of the Executive Committee; Director and retired Vice Chairman Board of Directors, The Chase Manhattan Bank, N. A.*
WILLIAM H. PREIS	*Senior Vice President*
*ARTHUR J. QUINN	*President, The New York Bank for Savings*
*JOHN E. RAASCH	*Former President and Chairman Board of Directors, John Wanamaker*
*CHARLES G. RODMAN	*President and Chief Executive Officer*
ARTHUR ROSS	*Executive Vice President and Managing Director, Central National Corporation, Investments New York City*
EARL R. SILVERS, JR.	*Administrative Vice President*
LAURENCE A. TISCH	*Chairman of the Board of Directors, Loew's Theatres, Inc.*

*Executive Committee

Officers

CHARLES G. RODMAN	*President and Chief Executive Officer*
EMERSON E. BRIGHTMAN	*Executive Vice President*
THOMAS R. DOYLE	*Senior Vice President*
WILLIAM H. PREIS	*Senior Vice President*
EARL R. SILVERS, JR.	*Administrative Vice President*
BYRON J. CRONIN	*Vice President*
J. BARRON LEEDS	*Vice President*
RALPH D. LYTLE	*Vice President*
JOHN D. O'CONNELL	*Vice President*
JAMES G. POULOS	*Vice President*
VINCENT J. VENINATA	*Vice President*
CHARLES H. HAIGHT	*Treasurer*
LEONARD WOLFRAM	*Secretary and General Attorney*
JOHN H. MILBANK	*Assistant Treasurer and Controller*
FREDERICK H. GUNTSCH	*Assistant Secretary*

Transfer Agent
The Chase Manhattan Bank, N. A.
New York, N. Y. 10015

Registrar
Chemical Bank New York Trust Company
New York, N. Y. 10015

Annual Meeting

The annual meeting of stockholders of The Grand Union Company will be held at 11 A.M. on Wednesday, May 28, 1969, in the auditorium of the Garden State Plaza Shopping Center, at the intersection of Routes 4 and 17, Paramus, New Jersey.

A notice of the meeting, a proxy statement and form of proxy are being mailed with this report to each stockholder of record as of April 7, 1969.

Financial Highlights 1968

	1968 (52 Weeks)	1967 (53 Weeks)
Net sales	$1,017,412,519	$935,863,768
Earnings before income taxes	27,398,778	22,125,042
Income taxes	14,080,000	10,745,000
Net income	13,318,778	11,380,042
Net income per common share*	2.02	1.81
Cash dividends per common share* (At annual rate of 60 cents)	.59	.56
Net income as a percent of sales	1.31	1.22
Working capital	61,764,418	57,132,893
Ratio of current assets to current liabilities	2.10 to 1	2.03 to 1
Common shares outstanding	6,588,099	5,907,214
Number of common stockholders	15,502	15,050

*Based on the average number of shares outstanding during the respective periods, adjusted for the 5% common stock dividend paid May 17, 1968. Net income per share is stated after dividends paid on the 4½% cumulative preferred stock.

More customers than ever were welcomed to Grand Union supermarkets in 1968, the company's first billion-dollar sales year.

The Grand Union Company, 100 Broadway, East Paterson, New Jersey 07407

TO OUR STOCKHOLDERS

The company had its first billion-dollar sales year in 1968. Earnings were higher than they have ever been since Grand Union was founded in 1872.

Sales totaled $1,017,412,519 during the 52-week 1968 fiscal year which ended March 1, 1969, an increase of 8.7% over the previous record of $935,863,768 set during the 53-week 1967 fiscal year.

Income in 1968 was $13,318,778, net after taxes, an increase of 17% over 1967 net earnings of $11,380,042. This, too, was a record high. It was equal to $2.02 per share of common stock based on the average number of shares outstanding during the year. Net income for 1967 equaled $1.81 per share, after adjusting for a 5% stock dividend distributed in May, 1968.

Several factors relating to earnings should be mentioned:

The 10% Federal tax surcharge reduced 1968 earnings per share by 19¢. Conversion during the fiscal year of $7,439,700 of the $10,426,700 issue of the company's 4⅛% Subordinated Debentures into 350,614 shares of common stock prior to the expiration of the conversion right on July 15, 1968, was the primary factor in increasing the average number of shares outstanding in 1968 to 6,479,445 from 6,139,714 in 1967. Had these debentures not been converted, 1968 earnings per share would have been 7¢ higher.

The company has changed its method of treating the investment tax credit to conform to the practice prevailing in the industry and it is being taken into income during the period in which it becomes available. As a result, net income for 1968 was increased by $630,000, or 10¢ per share.

Changes in the actuarial assumptions on the company's pension plan to conform to experience resulted in lowering expenses of the plan from $1,180,000 in 1967 to $739,000 in 1968. This increased earnings by 4¢ per share.

The Directors of the company, at their meeting on April 11, 1969, voted a regular quarterly cash dividend of 20¢ per common share, a 33⅓% increase over the former dividend of 15¢ a share, payable on May 23, 1969, to stockholders of record on April 23. The company intends to pay common dividends in the future at an annual rate of 80¢ per share. The Board took no action with respect to a stock dividend.

The company may from time to time purchase its own securities in the open market. In the last fiscal year the company purchased $234,000 face amount of its own 4⅛% Subordinated Debentures to be used for sinking fund requirements and purchased and retired 22,681 shares of its preferred stock at a cost of $764,821.

Changes on Board of Directors

Louis A. Green, financier and philanthropist who had served as a Director since 1946, died in October. He was Chairman of the Executive Committee of the Board at the time. A man of keen intellect and unflagging energy, Mr. Green was one of the principal architects of the company's tremendous growth during the twenty-two years he served as a Director. His counsel will be greatly missed.

Lawrence C. Marshall, Director and retired Vice Chairman of the Board of The Chase Manhattan Bank, N. A., was elected to succeed Mr. Green as Chairman of the Executive Committee of the Board. Elected to the Executive Committee during the year were Arthur J. Quinn, President of The New York Bank for Savings, and S. William Green, New York City attorney.

New Directors elected during 1968 were Arthur Ross, Executive Vice President and Managing Director of the Central National Corporation, an investment firm in New York City, and Earl R. Silvers, Jr., Administrative Vice President of the company.

Advisory Board in Puerto Rico

The positive contributions made by the Advisory Board in Puerto Rico in 1968 were of material benefit to the progress of the company and deserve special mention. Members of this Board are:

Dr. Carlos J. Lastra, Chancellor, Inter-American University; Mrs. Ana G. Mendez, President, Puerto Rico Junior College; Wallace Gonzalez-Oliver, partner in the law firm of Gonzalez Jr., Gonzales-Oliver & Novak; Dr. Rafael Pico, Chairman, Fi-

Charles G. Rodman, President

nance Committee, Banco Popular de Puerto Rico; Arturo Roque, retired Director, Agricultural Experiment Station, University of Puerto Rico, and Francisco de Jesus Toro, resident Vice President, Chase Manhattan Bank.

Growth of the Puerto Rico Division in recent years has been substantial. Two new supermarkets have been opened in the Commonwealth so far this year, and the division will put the company's first supermarket in the U. S. Virgin Islands into operation early this summer in Charlotte Amalie on St. Thomas.

New Corporate Officers Elected

Six senior executives were promoted to the rank of Corporate Vice President during 1968 in recognition of their contributions to successful company growth and the increased importance of the positions they hold. They are:

Byron J. Cronin, Perishables Merchandise Manager; J. Barron Leeds, Director of Labor Relations; Ralph D. Lytle, General Manager of the 130-store Empire Division headquartered in Waterford, New York, the company's largest single operating unit; John D. O'Connell, Director of Development; James G. Poulos, Regional Vice President in charge of the three operating divisions, comprising 228 stores, in the New York metropolitan area, and Vincent J. Veninata, Director of Personnel.

Thomas R. Doyle, Vice President in charge of operations, was elected a Senior Vice President during the year, and Earl R. Silvers, Jr., Administrative Vice President, was designated the corporate officer in charge of the 31-store Grand Way general merchandise division of the company. Bertram S. Kaiser was named Executive Vice President of the Grand Way division, reporting to Mr. Silvers. Mr. Kaiser since 1967 had been a Divisional Vice President and Operations Manager.

Electing early retirement, Lloyd W. Moseley at year's end relinquished his post as Vice President - Personnel. During his twenty-eight years with Grand Union, Mr. Moseley initiated and carried out far-sighted personnel policies and manpower development programs that contributed greatly to the company's successful growth to its present billion-dollar status.

Prospects for 1969

Another successful year is anticipated in 1969, with continuing growth in all phases of the company's activities. The national economy is strong, and there is reason to expect some moderation of the inflationary trends which have been most disruptive to business in the recent past.

Intensive development of its combined supermarket food and discount general merchandise operations during the past decade has made Grand Union a diversified, broad-based, extremely flexible mass merchandising organization. The company today operates in many of the major growth areas of the East. Every effort will continue to be made to increase its share of market in these areas, to expand their perimeters and to penetrate new areas outside existing operating territories. As population and disposable income continue to increase, so will the need for the company's large, full-service supermarkets and its economy-line general merchandise discount stores.

Increased need for other services provided by the company is also expected, and expansion is foreseen for its restaurant operation, prescription drug store division and materials handling company.

Grand Union enters 1969 with a sound financial posture and opportunities for continued growth in every aspect of its diversified operations. With the aid of the highly skilled group of over 22,000 loyal and dedicated employees whose splendid efforts and whole-hearted cooperation made 1968 a record year, both the near and long-term prospects for the company are bright.

Charles G. Rodman
President

April 21, 1969

REVIEW OF OPERATIONS

Supermarket Division

Due in large measure to greatly improved sales results from existing stores, the Supermarket Division contributed substantially to the company's record sales and earnings in 1968.

When new store construction fell substantially short of the original plan for the year, due primarily to financing difficulties encountered by developers, the program of major renovations was stepped up. Twenty-five successful older stores were renovated during the year, as against the 15 originally planned. Improved volume from stores renovated and enlarged, coupled with the better sales trend in identical stores, made it possible to offset the loss of projected volume occasioned by the slow-down in new store construction.

Last year 18 new stores were opened, 3 of which were Grand Ways. Twelve existing supermarkets were enlarged.

Continued emphasis was placed on construction of larger, more complete supermarkets, designed to attract customers from a wider trading area.

Opening day customers in the company's 15th supermarket in Puerto Rico. The store, which opened in March this year, is in Bayamon.

There was substantial growth in the number of specialty departments in larger stores during 1968. Twenty-seven new delicatessen departments were opened, bringing the total in operation to 225. Five fresh fish sections were added, to raise the number to 137. Cheese shops grew to 20 from six.

Completion of a new meat warehouse in Cortland, New York, makes it possible to better serve customers of our 54 supermarkets in the Central Division of New York State.

Block-ready meat operations were started during the year in the enlarged distribution center serving stores in the Washington, D. C., Division. More than half of the division's 45 stores are now being supplied with meat that has been reduced to primal cuts, boned, trimmed, wrapped and made ready for quick final in-store cutting and packaging.

Plans call for opening more supermarkets during 1969 than in 1968, with 12, averaging over 22,000 square feet, either opened since the beginning of the fiscal year or well under construction. In addition, 31 sites for other stores averaging over 20,000 square feet are currently under lease. Enlargement of existing stores will also be emphasized. Twenty are presently scheduled for major additions to be completed during the fiscal year. Renovation of about twenty other stores is planned.

Sides of beef are reduced to primal cuts, boned, trimmed and made ready for quick final in-store cutting and wrapping through this new block-ready meat operation in the company's distribution center serving stores in the Washington, D. C. area.

Continuing inflation is putting increased pressure on the company to find means to further reduce costs and increase operating efficiency. Progress has been made in this direction and more is expected in 1969 through improved work scheduling in stores, warehouses and trucking, as well as by additional mechanization of more phases of our operations.

Guideline techniques designed to make optimum use of personnel under varying in-store conditions were developed in 1968 by staff members of the company's Research and Productivity departments.

Positive steps are also being taken to reduce out-of-stocks in our stores through installation of a number of in-store data transmitters tied directly into our data processing center. This speeds both the reorder process and delivery of merchandise to the stores. A formalized program of in-store space allocation was also extended last year whereby each item in a store is assigned its own location and number of facings.

Customers like the convenience and ease of selection offered by brightly lighted upright, reach-in freezers being installed in new and enlarged supermarkets.

Because a successful profit result depends to such a great degree on the creation and maintenance of a profitable in-store merchandise mix, continued emphasis will be given in 1969 to increasing volume in our more profitable categories.

Progress shown in 1968 in every phase of the company's food store operations is expected to continue in 1969.

General Merchandise Division

Three Grand Way general merchandise discount stores were opened during 1968. Seven Grand Ways were renovated during the year.

One of the new Grand Ways, in Danbury, Connecticut, opened in March and was in operation for almost the full fiscal year. The others, in Sunbury and West Chester, Pennsylvania, opened in August and October and these added a sixth state to Grand Way's operating territory.

Results to date in the three new Grand Ways have been most satisfactory.

Clothes for everyone are to be found in Grand Way. Each store is designed to cater to the needs of young, growing, budget-conscious families.

Other Grand Ways are being brought into line with the basic philosophy of the company's program of general merchandise retailing: To offer good quality merchandise that young, growing families need at the time they want to buy; to sell this merchandise at fully competitive prices in well-designed, well laid out stores that are conveniently located, easy to shop and which offer friendly, efficient service.

Diversified Operations

While primarily a food and general merchandise retailing organization — with the major emphasis on food — Grand Union is engaged in a number of other business undertakings. Each is making a positive contribution to sales and profits; each represents sound potential for substantial future growth.

Prescription drug service is being offered customers of the company's stores through a growing number of Grand Rx drug departments.

Triple-S Stamp Company

The company's wholly-owned Stop and Save Trading Stamp Corporation, sixth largest stamp company in the nation, enjoyed another good year in 1968. Redemption of its Triple-S Blue Stamp saver books by customers of Grand Union supermarkets and thousands of other retail outlets which issue the Blue Stamps rose 8% over the preceding year.

Seven Triple-S redemption centers were opened last year; a like number will open in 1969 and another six will be renovated or enlarged. There are presently 60 full-service redemption centers in operation, in addition to 14 sub-centers in Grand Union supermarkets.

Trading stamps continued in 1968 to prove themselves a most effective form of promotion for Grand Union. They en-

Pleasing decor is a major attraction for supermarket shoppers. This is the liquor department of a newly-renovated Grand Union in New Jersey.

joyed increasing acceptance by customers; contributed both to maintenance of sales at a high level and to increasing sales. Stamps will be continued as an integral part of the company's highly effective advertising and promotion program.

Patio Restaurants

Further expansion of the company's 26-unit Patio Restaurant Division is scheduled this year following in-depth planning and preparation during 1968.

A prototype of future Patio Restaurants was opened in West Chester, Pennsylvania, last October. This modern, streamlined facility seating 116 was especially designed to cater to families dining out. It features smart decor, popular meals at budget prices, friendly and well-trained personnel. The most up-to-date restaurant equipment is used, including micro-wave ovens.

A larger version of this restaurant is now under construction in Puerto Rico. Plans for opening four additional free-standing units in New Jersey have been approved.

Should volume and profitability of these additional Patio Restaurants live up to the promise of the prototype in West Chester, expansion is planned looking toward development of a sizable chain of family-style restaurants.

Families in the United States today spend one out of every four food dollars eating out, and the trend of such expenditures is steadily up. Through its Patio Restaurants, Grand Union is seeking an increasing share of sales and profits being generated by this fast-growing segment of the food industry.

Grand Rx Drug Stores

Seventeen prescription drug departments, 16 in Florida and one in New Jersey, are now being operated by the Grand Rx Drug Store Division of the company. All are profitable and have shown an above average return on investment.

Four additional Grand Rx units are now under consideration for Grand Union supermarkets in Florida.

Future plans call not only for installation of more prescription drug departments in the company's larger stores, but for a substantial increase in their size wherever possible.

North American Equipment Corporation

Intensified sales and promotion efforts resulted in record sales and profits in 1968 for North American Equipment Corporation, the company's wholly-owned subsidiary that produces gravity-fed visible display, storage and selection equipment that has won wide acceptance for warehouse and store use throughout the country.

Early in 1969 the assets of a small company engaged in the assembly of conveyor systems which complements the products of North American were acquired. This should further strengthen the company's already strong, well-established position in the increasingly important and growing field of materials handling.

Modern redemption centers like this one in New Jersey make it possible for Triple-S Blue Stamp savers to redeem their filled books quickly and easily.

Families dining out find friendly service and popular, budget-priced meals in the company's Patio Restaurants like this one in the Grand Way at West Chester, Pennsylvania.

Pictured on this page are the six company executives promoted during 1968 to the rank of Corporate Vice President.

Ralph D. Lytle (right), Vice President who heads the largest single supermarket division of the company, headquartered in Waterford, New York, confers with Thomas R. Doyle, Senior Vice President in charge of operations.

Byron J. Cronin, Vice President in charge of perishable operations.

J. Barron Leeds, Vice President in charge of labor relations.

John D. O'Connell, Vice President in charge of development.

James G. Poulos (right), Vice President in charge of the three supermarket operating divisions in the New York metropolitan area, with his assistant, Raymond Martin.

Vincent J. Veninata (seated), Vice President in charge of personnel, with William M. Griffin, Training Director.

Eastern Shopping Centers, Inc.

With all of its shopping centers in operation for a full year in 1968 for the first time, Eastern Shopping Centers, Inc., in which Grand Union owns a 29% interest, increased its rental income by $1,057,000 over 1967. Total gross income for the year was $6,309,000.

Earnings of Eastern before depreciation and provision for Federal income taxes in 1968 were $1,599,927, against $1,341,311 a year earlier. Income before provision for Federal income taxes was $313,403 in 1968, as compared to $262,459 the year before.

Eastern moved its executive offices in 1968 from Yonkers, New York, to 1775 Broadway, New York City, to put the company in closer proximity to the major financial, legal and real estate firms with which it does business.

General Administration

The company's new 50,000 square foot Computer and Accounting Center opened in Paramus, New Jersey, in October. Transfer of the Grand Union and Grand Way data processing, accounting, auditing, financial, personnel benefits, traffic, payroll, file and statistical staffs to the Center was made over two week-ends with no disruption of any phase of the company's operations.

With activation of this facility, the Real Estate, Store Planning and Construction departments were relocated in the general headquarters building in East Paterson. Simultaneously, the Grand Way executive and buying offices were transferred from New York City to quarters in the company's general merchandise distribution center on Midland Avenue in Paramus.

Advanced aids to merchandising, such as this attractive new tiered display installation for fresh meats, are being tested constantly by Grand Union.

During the year, executive staffs of the Patio Restaurant Division and North American Equipment Corporation were moved to the building in South Hackensack, New Jersey, already occupied by the Stop and Save Trading Stamp Corporation, wholly-owned subsidiary which distributes the company's Triple-S Blue Stamps. This building has been designated the headquarters of Grand Union Diversified Companies.

Grouping of all key headquarters management groups within close proximity of each other in northern New Jersey has enabled better overall administration for the company.

So far, the company has underwritten the entire cost of its special efforts to assist the disadvantaged. This year, in the course of its continuing cooperation with the National Alliance of Businessmen and the Federal government in the J O B S program to provide full-time employment for the hard-core poor and summer employment for inner-city youth, Grand Union has signed a contract to train Harlem residents in New York City for positions in food retailing. Under a government contract, the company will be reimbursed for somewhat less than half the estimated cost of the project.

Long an equal opportunity employer, an early member of the National Alliance of Businessmen and a volunteer in the President's "Plans for Progress" program, Grand Union intends to continue to do its full share in the war on poverty by concentrating on the problem at its source: Employment for the poor and disadvantaged.

Recruiting and training the disadvantaged was given continued emphasis by Grand Union during 1968. A sizable number of minority group members, most of them Negroes, was recruited and trained during the year. A number of others, both graduates of the training program and those engaged in the course of regular recruiting, were added to the payroll. Still others already working for the company were promoted to positions of greater responsibility.

Personnel training is carried on continuously and at every level to enable Grand Union to adhere to its basic policy of promotion-from-within.

Grand Union's first full-service delicatessen department in Puerto Rico was an instant hit with customers. All told, there are now 225 delicatessen departments in the company's supermarkets.

A sixth state, Pennsylvania, was added in 1968 to the territory in which Grand Way self-service discount stores operate. This was opening day in Sunbury.

Consolidated Statements

The Grand Union Company and Subsidiaries

INCOME AND RETAINED EARNINGS

	Fifty-two weeks ended Mar. 1, 1969	*Fifty-three weeks ended Mar. 2, 1968*
Net sales	$1,017,412,519	$935,863,768
Cost of sales	798,348,123	734,438,539
Gross profit	219,064,396	201,425,229
Operating and general expenses:		
Salaries and wages to employees in the sales department	90,842,639	83,133,404
Other selling, administrative and general expenses	99,474,088	94,409,872
	190,316,727	177,543,276
	28,747,669	23,881,953
Other deductions, net, including interest (1968, $450,842; 1967, $983,086)	1,348,891	1,756,911
Earnings before income taxes	27,398,778	22,125,042
Income taxes (note 3)	14,080,000	10,745,000
Net income (per share: 1968, $2.02; 1967, $1.81)	13,318,778	11,380,042
Retained earnings, beginning of period	16,953,477	14,005,252
	30,272,255	25,385,294
Less dividends:		
On common stock:		
In cash, 60¢ per share	3,854,460	3,468,234
In common stock, based on market price, 5%	6,898,666	4,724,487
On 4½% cumulative preferred stock, in cash	215,819	239,096
Retained earnings, end of period (note 6)	$ 19,303,310	$ 16,953,477

ADDITIONAL PAID-IN CAPITAL

Balance, beginning of period	$ 62,038,310	$ 57,486,630
Add:		
Excess of retained earnings capitalized in connection with stock dividends over par value of shares issued	5,398,956	3,334,932
Excess of amounts received over par value of common shares issued under employees' stock option plans (note 5)	372,912	34,445
Excess of principal amount of debentures converted into common stock over par value of shares issued (note 2)	5,614,646	1,141,797
Excess of par value over cost of treasury preferred stock retired	369,229	40,506
Balance, end of period	$ 73,794,053	$ 62,038,310

See accompanying financial notes

Consolidated Balance Sheets

ASSETS

	Mar. 1, 1969	Mar. 2, 1968
Current assets:		
Cash	$ 12,772,914	$ 19,309,676
Temporary cash investments, at cost	5,564,674	749,100
Accounts receivable, less allowance for losses	5,173,049	4,641,884
Inventories, at lower of average cost or market	88,011,838	81,981,876
Prepaid federal income taxes	2,541,185	1,866,681
Prepaid expenses and operating supplies	4,100,198	3,863,925
Total current assets	118,163,858	112,413,142
Investment in affiliated company, at cost (note 1)	2,926,235	2,926,232
Fixed assets, at cost less allowances for depreciation and amortization (1969, $58,140,923; 1968, $53,698,984):		
Land	3,021,518	3,075,767
Fixtures and equipment	54,145,916	51,594,313
Leasehold improvements and leaseholds	14,873,726	15,051,021
Other	4,366,550	2,776,217
Other assets and deferred charges	1,176,099	1,397,538
Cost in excess of amounts of net assets at dates of acquisition	7,411,998	7,411,998
	$206,085,900	$196,646,228

See accompanying financial notes

LIABILITIES

	Mar. 1, 1969	Mar. 2, 1968
Current liabilities:		
Promissory notes due within one year	$ 1,350,000	$ 1,350,000
Accounts payable and accrued liabilities	50,605,783	50,132,597
Federal income taxes	4,443,657	3,797,652
Total current liabilities	56,399,440	55,280,249
Promissory notes payable after one year in varying amounts annually through 1973	5,100,000	6,450,000
4⅛% subordinated debentures, due 1978 (note 2)	688,400	8,362,100
Liability for unredeemed trading stamps, less amount included in current accrued liabilities (1969, $5,958,493; 1968, $5,430,372)	2,000,000	1,800,000
Deferred federal income taxes	8,802,456	7,742,318
Deferred investment tax credit (note 3)	2,023,400	2,283,900
Other noncurrent liabilities and reserves	1,016,494	1,047,914
	$ 76,030,190	$ 82,966,481

STOCKHOLDERS' EQUITY

	Mar. 1, 1969	Mar. 2, 1968
4½% cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, issued and outstanding at Mar. 1, 1969, 80,626 shares	$ 4,031,300	$ 5,165,350
Common stock, $5 par value, authorized 9,000,000 shares, issued at Mar. 1, 1969, 6,589,821 shares (notes 2, 4 and 5)	32,949,105	29,544,680
Additional paid-in capital, as annexed	73,794,053	62,038,310
Retained earnings, as annexed (note 6)	19,303,310	16,953,477
	130,077,768	113,701,817
Less, treasury stock at cost (at Mar. 1, 1969, 1,722 common shares)	22,058	22,070
	$130,055,710	$113,679,747
	$206,085,900	$196,646,228

See accompanying financial notes

Notes to Financial Statements

(1) *Principles of Consolidation:* The consolidated financial statements include the accounts of all wholly owned subsidiaries. At March 1, 1969, the company's investment in the affiliated company represented approximately 29% of the outstanding common stock of Eastern Shopping Centers, Inc. Eastern acquires, develops and operates shopping centers. The company's equity in the net assets of Eastern, based upon the most recent audited financial statements, amounted to approximately $3,166,000.

(2) *Debentures:* During the period ended March 1, 1969, $7,439,700 of principal amount of subordinated debentures were converted into common stock prior to the expiration of the conversion privilege on July 15, 1968, and $234,000 of debentures were purchased by the company to be used for sinking fund requirements (approximately $77,000 per year).

(3) *Income Taxes:* Income tax expense includes the following:

	1968	*1967*
	(in thousands)	
Federal income taxes:		
Current provision	$12,425	$8,647
Deferred taxes, net, resulting principally from accelerated depreciation	386	666
Amortization of deferred investment tax credit	(261)	(349)
Investment tax credit deferred	—	721
	12,550	9,685
Other income taxes	1,530	1,060
	$14,080	$10,745

Prior to the current year, the company followed the policy of amortizing the investment tax credit over the useful life of the applicable property and will continue to do so for the balance so deferred at March 2, 1968. Effective March 3, 1968, the investment tax credit is being taken into income in the period in which it becomes available ($700,000 in the current year). As a result of the change, net income for the current year has been increased by $630,000 or 10¢ per share.

(4) *Common and Preferred Stock:*

	Number of Shares
(a) Common Stock:	
Balance, March 2, 1968	5,908,936
Stock dividend (5%)	299,942
Stock options exercised	30,329
Debentures converted	350,614
Balance, March 1, 1969	6,589,821

(b) Preferred Stock: During the period ended March 1, 1969, 22,681 shares were purchased and retired by the company.

(5) *Stock Options:* A summary of the share activity of the stock option plans follows:

Options outstanding, March 2, 1968	422,600
Shares added to reflect 5% stock dividend	19,693
Options granted at $24.00 per share	34,008
Options exercised, cancelled or expired	(103,498)
Options outstanding, March 1, 1969	372,803

(held by approximately 6,200 employees at prices ranging from $15.67 to $25.97 per share).

The outstanding options are exercisable in varying amounts through July 11, 1973.

No further options may be granted under the 1961 plan and per share prices for options granted under the 1964 plan may not be less than 100% of the market price on the dates options are granted. Options may not be granted to directors who are not also officers.

At March 1, 1969, 25,662 shares of common stock were reserved for future grants under the 1964 stock option plan.

(6) *Restrictions on Dividends:* The note agreements and the 4⅛% debenture indenture contain provisions as to the maintenance of working capital and payment of cash dividends. The most restrictive of these provides that consolidated working capital may not be less than $14,500,000, and that payments for net acquisitions of the company's stocks and for cash dividends will be limited in the aggregate to 75% of the consolidated net earnings after March 2, 1957. At March 1, 1969, 75% of such consolidated net earnings exceeded such payments by approximately $40,000,000 and, accordingly, none of the balance of retained earnings is so restricted.

(7) *Property Leases:* The company operates principally in leased premises and at March 1, 1969, there were 506 leases expiring after February 26, 1972. The minimum annual rentals on such leases, not including real estate taxes or other expenses payable under the terms of certain of the leases, aggregate approximately $16,435,000 of which $1,140,000 pertains to leases for stores not yet open as of March 1, 1969. Of the aggregate annual rentals, $12,510,000 applies to leases expiring prior to February 25, 1984, and $3,925,000 applies to leases expiring thereafter but prior to 1992. In addition, the company is contingently liable on 20 leases, applicable principally to stores sold, expiring after February 26, 1972, but prior to 1985, and having minimum annual rentals aggregating $725,000.

(8) *Depreciation and Amortization:* Costs and expenses include depreciation and amortization computed on a straight-line basis of $9,923,000 and $9,114,000 for the periods ended in 1969 and 1968, respectively.

(9) *Pension Plan:* The company maintains a trusteed pension plan covering substantially all employees, except those covered by labor union pension plans to which the company contributes. The company's policy is to fund pension cost accrued.

Effective March 3, 1968, actuarial assumptions were changed to reflect an increased rate of earnings on fund assets and the method of valuing fund assets was changed to recognize unrealized appreciation on a running-average basis. The resultant excess of value of fund assets over the applicable accrued liability is being applied as a reduction of expected normal pension costs over a 20 year period. The aforementioned changes had the effect of decreasing pension expense and increasing net income for the period ended March 1, 1969 by approximately $550,000 and $260,000 (4¢ per share), respectively. Pension expense was $739,000 and $1,180,000 for the periods ended March 1, 1969 and March 2, 1968, respectively.

(10) *Statement Presentation:* Effective March 1, 1969, the company has classified prepaid expenses and operating supplies as a current asset. In addition, income taxes have been classified in a manner to comply with a recent opinion of the Accounting Principles Board. The prior period financial statements have been reclassified for comparability.

Source and Use of Funds

SOURCE	Fifty-two weeks ended Mar. 1, 1969	Fifty-three weeks ended Mar. 2, 1968
Net income	$13,318,778	$11,380,042
Charges to income not requiring funds:		
Depreciation and amortization	9,923,000	9,114,000
Deferred income taxes and investment tax credit (note 3)	125,000	1,038,000
Sale of stock under stock option plans	524,557	49,945
	$23,891,335	$21,581,987
USE		
Cash dividends	$ 4,070,279	$ 3,707,330
Additions to fixed assets, net	13,833,392	12,420,151
Reduction in long term notes payable	1,350,000	1,350,000
Increase in working capital	4,631,525	4,600,187
Changes in other assets and liabilities, net	6,139	(495,681)
	$23,891,335	$21,581,987

Auditors' Report

To the Stockholders, The Grand Union Company, East Paterson, New Jersey:

We have examined the consolidated balance sheet of The Grand Union Company and Subsidiaries as of March 1, 1969, the related statements of income and retained earnings and of additional paid-in capital and the statement of source and use of funds for the fifty-two week period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the Company and Subsidiaries for the fifty-three weeks ended March 2, 1968.

In our opinion, the aforementioned financial statements present fairly the financial position of The Grand Union Company and Subsidiaries at March 1, 1969 and March 2, 1968, and the results of their operations and source and use of funds for the fifty-two and fifty-three week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the changes, in which we concur, referred to in Notes 3 and 9.

LYBRAND, ROSS BROS. & MONTGOMERY

April 11, 1969
2 Broadway, New York, N. Y.

Ten Year Financial Summary
(Dollar amounts in thousands except for per share figures)

FOR THE YEAR	1968	1967 (53 weeks)	1966	1965	1964	1963	1962	1961 (53 weeks)	1960	1959
Sales	1,017,413	935,864	836,242	779,683	740,040	667,417	630,530	640,622	604,274	603,468
Earnings before income taxes (5)	27,399	22,125	20,304	20,352	18,572	14,370	10,204	14,583	14,471	15,154
Income taxes (5)	14,080	10,745	9,400	9,500	9,000	7,350	5,150	7,430	7,380	7,800
Net income	13,319	11,380	10,904	10,852	9,572	7,020	5,054	7,153	7,091	7,354 (4)
Net income per common share (1) (2)	2.02	1.81	1.74	1.74	1.54	1.12	.80	1.15	1.16	1.22
Cash dividends per common share (1) (3)	.59	.56	.54	.51	.49	.48	.47	.45	.44	.41
Stock dividends	5%	5%	5%	4%	4%	2%	3%	3%	5%	3%
Depreciation and amortization	9,923	9,114	8,244	7,517	7,180	6,586	6,381	6,163	5,737	5,289
Net income as a percent of sales	1.31%	1.22%	1.30%	1.39%	1.29%	1.05%	.80%	1.12%	1.17%	1.22%
AT THE YEAR END										
Working capital	61,764	57,133	48,992	47,754	45,858	43,829	38,987	38,210	34,481	30,402
Ratio of current assets to current liabilities	2.10 to 1	2.03 to 1	1.97 to 1	1.94 to 1	1.96 to 1	2.08 to 1	2.14 to 1	1.98 to 1	1.87 to 1	1.85 to 1
Common stockholders' equity	126,024	108,514	99,270	91,875	83,824	76,607	72,702	70,837	64,759	59,623
Equity per common share (1)	19.13	17.50	16.20	15.00	13.77	12.71	12.06	11.73	10.94	10.18
Number of stores at year end: Supermarkets	537	532	531	527	513	499	493	472	469	451
Grand Way stores	31	30	30	25	25	23	23	20	20	14

(1) Adjusted for common stock dividends and the three-for-two split effective June 15, 1959.

(2) Net income per share is stated after dividends paid on the 4½% cumulative preferred stock.

(3) Dividends on common stock have been paid at an annual rate of 60 cents per share since August, 1959.

(4) Excludes extraordinary gain, net of tax, of $1,621 (28 cents per share) on sale of the Canadian Division.

(5) For 1966 and prior years taxes on income other than federal were classified as administrative and general expenses and not as income taxes.

GRAND UNION SUPERMARKETS

34	Connecticut
48	Florida
20	Maryland
5	Massachusetts
19	New Hampshire
65	New Jersey
279	New York
3	Pennsylvania
26	Vermont
21	Virginia
1	West Virginia
3	Washington D. C.
13	Puerto Rico
Total 537	

GRAND WAY STORES

6 Connecticut
Bristol, Danbury, New Britain, Stratford, Waterbury, West Haven

8 Florida
Fort Lauderdale, Miami (3), St. Petersburg (2), Tampa, West Hollywood

4 New Jersey
Closter, East Paterson, Keansburg, Paramus

10 New York
Albany, Binghamton, Cortland, Elmira, Endicott, Nanuet, Newburgh, Plattsburgh, Rome, Wappingers Falls

2 Pennsylvania
Sunbury, West Chester

1 Vermont
South Burlington

Total 31

TRIPLE-S BLUE STAMP REDEMPTION CENTERS

6	Connecticut
7	Florida
1	Maryland
4	Massachusetts
10	New Jersey
30	New York
2	Vermont
Total 60	

Totals as of 3/1/69

The Grand Union Company